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GAIN Report #PK3005

## **Pakistan**

## **Sugar**

## **Annual**

## **2003**

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### **Report Highlights:**

**Pakistan continues to face a shortage of water for agricultural use. Sugar production in MY 2003/04 is forecast to decrease to 3.56 million metric tons (MMT) due to a decrease in cane production. Pakistan is expected to export 100,000 MT of sugar in MY 2003/04 provided the Government of Pakistan (GOP) maintains its current level of subsidy which is equivalent to U.S. \$ 100 to \$ 120 per metric ton (MT). During MY 2002/03 the GOP authorized government purchase and export of 300,000 MT of sugar.**

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Includes PSD changes: Yes  
Includes Trade Matrix: No  
Annual Report  
Islamabad [PK1], PK

## EXECUTIVE SUMMARY

Pakistan's agriculture sector remains gripped in a prolonged drought. As a result, sugarcane production remains uncertain. Two consecutive monsoon seasons with below average moisture fall (the seasons typically occur in late summer/early fall) coupled with below normal glacial and snow melts are the primary reasons surface water supplies for agricultural uses are in acute shortage. Water supplies for agricultural use presently stand at 50 percent of normal. Given that the country's reservoirs are filled largely through glacial and snow melts, it would be late June at the earliest before those reservoirs would be recharged with any runoff accumulation. Thus the success of MY 2003/04 sugarcane crop will be a function of warm and clear spring weather that promotes ice/snow melt leading to increased water supplies available for agricultural use.

Compounding the negative effects of this drought is the long-term mismanagement of the country's water resource. Since completion of the national irrigation system was completed in the 1970's, demand for water has increased more than 50 percent while storage capacity has decreased by one-third due to silting, leaving per capita availability at a fraction of its original level. As a result, shortfalls in water supplies are expected to play an increasingly important role in agriculture's ability to meet future domestic requirements. In addition to the need to increase storage capacity and to adopt new irrigation technology, many observers believe Pakistan needs to alter cropping patterns significantly. To conserve water resources that are becoming scarcer by the year, producers will need to shift production away from water-intensive crops such as sugar cane and rice.

MY 2003/04 sugarcane area is forecast to decrease 2 percent to 1.05 million hectares due mainly to:

- (i) decreasing financial returns from the last cane crop (50 percent reduction in offered cane price), coupled with marketing problems/delayed payments from sugar mills,
- (ii) increasing financial returns from cotton crops,
- (iii) shortage of irrigation supplies particularly as related to tube well irrigation and increases in cost for electricity and diesel fuel.

## SUGARCANE

### Production

MY 2003/04 sugarcane production is forecast to decline only marginally as compared to the year earlier output as improvements in yields are expected to offset most of the decline attributed to fewer acres planted and less frequent irrigation. Surface water supplies should improve if monsoon rains are normal this year or, at least, repeat the level received last year during the critical part of the growing season. Production inputs (i.e., fertilizers, insecticides, etc.) and necessary control measures are expected to be applied by producers during the coming production cycle.

MY 2002/03 sugarcane production increased only 2 percent despite a 7 percent increase in planted area. Average yields, however, declined 6 percent due to a severe attack of pyrella on plants in the Punjab Province (which contributes 65 percent of total sugarcane production in the country) and in parts of Sindh Province.

**Table 1: Sugarcane Area and Production by Province**

Province	Area ('000' hectares)			Production ('000' MT)		
	MY01/02	MY02/03	MY2003/04	MY01/02	MY02/03	MY2003/04
Punjab	657.0	720.0	700.00	31,803	32,400	32,200
Sindh	241.0	250.0	245.00	11,416	11,500	11,300
NWFP	102.0	104.0	103.00	4,787	4,900	4,800
Baluch	0.7	0.7	0.6	35	35	34
Total	1,000.7	1,074.7	1,048.6	48,041	48,835	48,334

Source: Ministry of Food and Agriculture and FAS/Islamabad

### Production Policy

The Government of Pakistan (GOP) encourages cane production via a market support price which is announced prior to planting. The support price, though well above the world price, is set below the local domestic market price thus it acts as a minimum guaranteed price. As a result, the government generally does not procure cane. The MY 2003/04 support price is expected to remain unchanged at Rs. 42 per 40-kilograms for Punjab and NWFP and Rs. 43 per 40-kilograms for Sindh, both adjusted for sugar recovery levels (\$1 = Rs. 58). Current market prices for sugarcane are hovering around the projected local support price level. The sugar industry has already announced that it would not pay more than the support price. However, producers expect farm gate prices to climb 50 percent higher than the current offered price. To stave off problems, GOP officials are engaging industry and producers in meetings to ensure, at least, timely payment on cane delivered to the mill. Despite GOP efforts, complaints are rising related to delayed payments. The full spillover effects of this season's mill/producer conflict over the farm gate price on next year's planting intentions are yet to be known.

## SUGAR

### Production

MY 2003/04 refined sugar production is expected to decrease 3 percent in response to the decrease in cane production and lower sucrose recovery from that cane processed. Sugar mills should start crushing on schedule next year. Some cane in the Province of NWFP is expected to be diverted to 'Gur' production because of improvements in the Afghan situation.

In MY 2002/03 refined sugar production increased 6 percent (raw value) based on increases in sugarcane production and in sucrose recovery levels. During the current year, sugar mills have started the crushing cycle late, about one and a half months. The shortage of water during the prime plant growth phase translated to a higher sucrose level in the stalks, thus an elevated recovery rate.

### Consumption

MY 2003/04 sugar consumption is forecast to remain unchanged from last year. Retail sugar prices are hovering around Rs. 20 per kilogram (\$1=Rs. 58) as stocks remain readily available. It is understood that the GOP would like to see retail prices maintained in the Rs. 20 - 21 per kilogram or lower range.

**Table 2. Refined Sugar Production, Supply and Demand**

Commodity	Centrifugal Sugar		2003	Estimate	(1000 MT)	
	2002	Revised			2004	Forecast
Market Year Begin		10/2001		10/2002		10/2003
Beginning Stocks	425	425	460	460	0	330
Beet Sugar Production	32	32	33	32	0	32
Cane Sugar Production	3421	3421	3745	3638	0	3531
TOTAL Sugar Production	3453	3453	3778	3670	0	3563
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	32	32	0	0	0	0
TOTAL Imports	32	32	0	0	0	0
TOTAL SUPPLY	3910	3910	4238	4130	0	3893
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	0	0	215	300	0	100
TOTAL EXPORTS	0	0	215	300	0	100
Human Dom. Consumption	3450	3450	3500	3500	0	3500
Other Disappearance	0	0	0	0	0	0
Total Disappearance	3450	3450	3500	3500	0	3500
Ending Stocks	460	460	523	330	0	293
TOTAL DISTRIBUTION	3910	3910	4238	4130	0	3893

## Trade

MY2003/04 sugar exports (raw basis) are forecast at 100,000 MT based on the GOP's continuation of a U.S. \$100 to \$120 per MT subsidy. In response to complaints by mill owners and producers about harmful sugar imports, in June 2002 the government imposed a 25 percent duty on imported refined sugar. Mill owners view this levy as necessary to 'protect' the local industry, whose cost of production for refined sugar makes it not competitive with its imported counterpart.

MY 2002/03 sugar exports are projected at 300,000 MT. In December 2002 the GOP authorised the Trading Corporation of Pakistan (TCP) to procure 300,000 MT from the sugar industry for the export market. To date the TCP has procured 50,000 MT at prices ranging between U.S. \$331-336 per MT and sold 37,000 MT at prices ranging between U.S. \$213-247 per MT FOB Karachi. Export destinations are Afghanistan and Central Asian Republics. The GOP will cover the difference in purchase and sell prices.

## Stocks

MY 2003/04 stocks are forecast to decline given projected supply-demand scenarios and trade expectations. Sugar stocks are held by the mills and the private trade. The GOP does not control or maintain any sugar stocks.